



April 30, 2012

## Northeast Bancorp Reports Third Quarter Results, Declares Dividend

### Lewiston, ME

Lewiston, ME (April 30, 2012) - Northeast Bancorp ("Northeast" or the "Company") (NASDAQ: NBN), a Maine-based full-service financial services company and parent of Northeast Bank (the "Bank"), today reported net income of \$168 thousand, or \$0.02 per diluted common share, for the quarter ended March 31, 2012. For the nine months ended March 31, 2012, the Company earned net income of \$1.1 million, or \$0.23 per diluted common share.

The Board of Directors has declared a cash dividend of \$0.09 per share, payable on May 29, 2012 to shareholders of record as of May 14, 2012.

Results for the three and nine months ended March 31, 2012 include net income from discontinued operations of \$14 thousand and \$1.1 million, respectively. As announced in the first quarter of fiscal year 2012, the assets of Northeast's insurance agency division were acquired by local agencies in two separate transactions. The sale yielded a pre-tax gain of \$1.6 million and increased the Company's tangible capital by \$8.4 million. At March 31, 2012, the Company's tangible book value per share was \$15.94, compared to \$13.58 at June 30, 2011.

"During the third quarter, we made continued progress on the implementation of our business strategy," said Richard Wayne, President and Chief Executive Officer of Northeast. "We launched the pilot of our affinity deposit program, ableBanking, which is now taking deposits, and grew our purchased loan portfolio. Since our merger with FHB Formation at the end of 2010, we have made substantial investments in building our purchased loan capacity, and in enhancing the operational capacity of the Bank overall. We have also invested in new people and technology to support the growth of our affinity deposit program, ableBanking. We expect that these investments will serve us well as we seek to grow our new business initiatives to scale over the next several years."

During the nine month period ended March 31, 2012, the Company purchased loans totaling \$59.8 million, and has since purchased an additional \$14.6 million in the month ended April 30, 2012. The total return realized on this portfolio, including transactional income, was 13.9% for the quarter and 15.2% for the nine months ended March 31, 2012. "We are very pleased with the progress of our loan purchasing business," Wayne noted. "While transactional income, which includes accelerated accretion recognized on loan payoffs and gains on sales of purchased loans, may vary significantly from quarter to quarter, we are encouraged by the results in the 10 months since we launched this new business line."

Quarterly results included the following items of significance:

1. The Company's net interest margin ("NIM") was 3.44% for the quarter ended March 31, 2012. The Company's NIM has benefited from growth in the Company's purchased loan portfolio, which increased to \$56.9 million at March 31, 2012 from \$637 thousand at June 30, 2011. The yield on the purchased loan portfolio was 12.2% and 14.2% for the three and nine months ended March 31, 2012, respectively, compared to yields of 5.8% and 6.0% on the originated loan portfolio, respectively, for the same periods. The following summarizes interest income and related yields recognized on the Company's purchased and originated loans.

The yield on purchased loans was increased by unscheduled loan payoffs during the three and nine month periods ended March 31, 2012, which resulted in immediate recognition of the prepaid loans' discount in interest income. The Company also realized \$219 thousand related to sales of purchased loans during the quarter ended March 31, 2012. The following table details the "total return" on purchased loans, based on regularly scheduled interest and accretion, accelerated accretion, and other income recognized upon unscheduled loan payoffs or sales.

2. A net gain on sale of available-for-sale investment securities of \$731 thousand.
3. Increased noninterest expenses, including staffing and infrastructure costs associated with the Company's investment in its new loan purchasing and deposit initiatives, to provide for future growth. The quarter also included certain non-recurring expenses, including compensation costs aggregating \$201 thousand, largely the result of terminating the Company's self-insured employee benefits program and replacing it with a third-party insurance program. The Company also incurred \$207 thousand in nonrecurring professional fees, principally consulting costs associated with new information technology initiatives and nonrecurring legal expense.

Total assets declined by \$1.4 million or 0.2% to \$595.0 million at March 31, 2012, compared to total assets of \$596.4 million at June 30, 2011. The principal components of the change in the balance sheet during the nine months ended March 31, 2012 were as follows:

1. A \$31.3 million, or 13.4%, decrease in cash and investments, principally as a result of growth in loans during the period. At quarter end, the Company continues to maintain a level of balance sheet liquidity that is intended, in part, for future purchases of commercial loans.
2. Loan growth of \$35.9 million, or 11.6%, principally due to growth of \$56.3 million in loans purchased by the Company's Loan Acquisition and Servicing Group, offset in part by amortization and payoffs from the originated loan portfolio of \$20.4 million;
3. A \$4.6 million, or 3.7%, reduction in borrowed funds, resulting primarily from the \$2.1 million repayment of insurance agency debt in connection with the sale of the Company's insurance agency division assets;
4. A \$2.6 million, or 0.7%, increase in deposits. The Bank's new affinity deposit program, ableBanking, recently launched its pilot program, and at quarter end had raised \$1.1 million of new deposits.
5. An \$8.4 million, or 63.8%, decrease in intangible assets, resulting primarily from the sale of insurance agency division assets.

During the nine months ended March 31, 2012, nonperforming assets decreased by 22.8% to \$6.1 million or 1.0% of total assets, from \$7.9 million, or 1.3%, of total assets at June 30, 2011, and loans past due 30 days or more as a percentage of total loans decreased to 2.1% at March 31, 2012 from 2.4% at June 30, 2011.

At March 31, 2012, the Company's Tier 1 leverage ratio was 11.9%, an increase from 10.4% at June 30, 2011 and the total risk-based capital ratio was 19.5%, an increase from 19.0% at June 30, 2011.

### **About Northeast Bancorp**

Northeast Bancorp (NASDAQ: NBN) is the holding company for Northeast Bank, a full service bank headquartered in Lewiston, Maine. Northeast Bank derives its income from a combination of traditional banking services as well as from its Loan Acquisition and Servicing Group, which purchases performing commercial loans for the Bank's portfolio. ableBanking, a division of Northeast Bank, which launched its pilot in the first quarter of calendar 2012, offers savings products to consumers online, through affinity partnerships with non-profit organizations. Northeast Bank operates ten full-service branches, four investment centers and three loan production offices that serve individuals and businesses located in western and south-central Maine and southern New Hampshire. Information regarding Northeast Bank can be found on its website at [www.northeastbank.com](http://www.northeastbank.com).

On December 29, 2010, FHB Formation LLC ("FHB") merged with and into Northeast, with Northeast as the surviving company. The Company applied the acquisition method of accounting, as described in Accounting Standards Codification 805, Business Combinations, to this transaction, which represents an acquisition by FHB of Northeast, with Northeast as the surviving company. As a result, the Company's financial statements from the periods prior to the transaction date are not directly comparable to the financial statements for periods subsequent to the transaction date. To make this distinction, the Company has labeled balances and results of operations prior to the transaction date as "Predecessor Company" and balances and results of operations for periods subsequent to the transaction date as "Successor Company." The lack of comparability arises from the assets and liabilities having new accounting bases as a result of recording them at their fair values as of the transaction date rather than at historical cost basis. To denote this lack of comparability, the Company has placed a heavy black line between the Successor Company and Predecessor Company columns in its consolidated financial statements and, where applicable, in this discussion.

### **Non-GAAP Financial Measure**

In addition to results presented in accordance with generally accepted accounting principles ("GAAP"), this press release contains certain non-GAAP financial measures. Northeast's management believes that the supplemental non-GAAP information is utilized by regulators and market analysts to evaluate a company's financial condition and therefore, such information is useful to investors. These disclosures should not be viewed as a substitute for financial results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with

other companies' non-GAAP financial measures having the same or similar names.

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Statements in this press release that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although Northeast believes that these forward-looking statements are based on reasonable estimates and assumptions, they are not guarantees of future performance and are subject to known and unknown risks, uncertainties, and other factors. You should not place undue reliance on our forward-looking statements. You should exercise caution in interpreting and relying on forward-looking statements because they are subject to significant risks, uncertainties and other factors which are, in some cases, beyond the Company's control. The Company's actual results could differ materially from those projected in the forward-looking statements as a result of, among other factors, changes in interest rates and real estate values; competitive pressures from other financial institutions; the effects of a continuing deterioration in general economic conditions on a national basis or in the local markets in which the Company operates, including changes which adversely affect borrowers' ability to service and repay our loans; changes in loan defaults and charge-off rates; changes in the value of securities and other assets, adequacy of loan loss reserves, or deposit levels necessitating increased borrowing to fund loans and investments; increasing government regulation, such as the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; changes in the rules of participation for the Troubled Asset Relief Program Capital Purchase Program promulgated by the U.S. Department of the Treasury under the Emergency Economic Stabilization Act of 2008, which may be changed unilaterally and restrictively by legislative or regulatory actions; establishment of a consumer financial protection bureau with broad authority to implement new consumer protection regulations; the risk that we may not be successful in the implementation of our business strategy; the risk that intangibles recorded in the Company's financial statements will become impaired; changes in assumptions used in making such forward-looking statements; and the other risks and uncertainties detailed in the Company's Annual Report on Form 10-K and updated by the Company's Quarterly Reports on Form 10-Q and other filings submitted to the Securities and Exchange Commission. These statements speak only as of the date of this release and we do not undertake any obligation to update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this communication or to reflect the occurrence of unanticipated events.

**IMPORTANT NOTE:** Securities and Advisory Services offered through Commonwealth Financial Network, Member FINRA, SIPC, and a Registered Investment Adviser. Securities are not FDIC insured, not bank obligations or otherwise bank guaranteed and may lose value. Northeast Financial is located at 202 Rte. 1, Suite 206, Falmouth, ME 04105.

**For More Information:**

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\*For the full financials, please see the attached PDF.

[NBNQ3EarningsRelease2012.pdf](#)